DOCUMENT RESUME

ED 241 828 CE 800 132

TITLE New Life for Old Houses. The CIRcular: Consumer Information Report 28.
INSTITUTION Bank of America NT & SA, San Francisco, CA.
PUB DATE Mar 81
NOTE 5p.; For related documents, see CE 800 121-133.
PUB TYPE Guides - Non-Classroom Use (055)

EDRS PRICE MF01 Plus Postage. PC Not Available from EDRS.
DESCRIPTORS Building Plans; Consumer Education; *Facility Improvement; Financial Support; Guidelines; *Housing; Inspection; Pamphlets; *Purchasing
IDENTIFIERS Contractors; PF Project

ABSTRACT

This report offers suggestions on finding, planning, and financing a home rehabilitation project. Information on finding a "fixer-upper" includes deciding where to look, learning what to look for in a house and neighborhood, learning about local building and zoning codes, deciding what characteristics of houses and neighborhoods are important, and finding out whether other houses in the neighborhood have been renovated. Detailed guidelines for inspecting a house both inside and outside are presented along with a discussion about having a professional inspector assess the house. Recommendations on financing the project include developing a plan for the rehabilitation project prior to visiting a lender and investigating options for financing. Descriptions are given of conventional loans and federal, state, and local government loan programs. Recommendations on finding and hiring professional contractors and information on possible grants and tax exemptions available to renovators of houses with historic value are included. Information in this report is current at the time of printing, March 1981, but is subject to change. (DC)

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The CIRcular™
Consumer Information Report 28

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New Life for Old Houses

Buying a fixer-upper can make owning a home more affordable, get you more house for your money, and give you the satisfaction of revitalizing a bit of the past. This report discusses what's involved in finding, planning, and financing a home rehabilitation project.

If you have some determination, imagination, and a little pioneer spirit, buying and rehabilitating an older or run-down house may be a practical choice in today's housing market. Fixer-uppers usually have low purchase prices because their condition or location is often less than desirable. Also, you may be able to take advantage of special rehabilitation financing programs.

But, don't start rolling up your sleeves yet; renovating a house isn't a good idea for everyone. You'll need to understand what's involved in finding the right house, financing the project, and getting the work done before you decide whether rehabbing will work for you.

A rehabilitation project can involve anything from making basic repairs to gutting and rebuilding the interior of a house. It may also include restoration of a house's historical features. The work you'll have to do will depend on the house you choose.

Finding a Fixer-Upper

Houses needing renovation can be found throughout California. You can find potential projects by checking newspaper classified ads and with real estate brokers. Look for houses described as "fixer-uppers," "handyman specials," "neglected," or "needs work." The newspaper may also list auctions of foreclosed property and estate sales where prime rehab bargains can sometimes be found.

Real estate agents and newspaper ads can also give you an idea of prices and characteristics of individual houses, as well as where you're likely to find renovation properties. Real estate agents, lenders, and local government agencies may know of neighborhoods where community revitalization efforts are underway.

WHERE TO LOOK While you might find a fixer-upper in any neighborhood, older or run-down areas are the most obvious places to look. Though you may not have previously considered certain areas the most desirable places to live, keep an open mind and visit as many neighborhoods as possible to get the complete picture of rehab possibilities in your community.

DO YOUR HOMEWORK Before you begin looking at houses and neighborhoods, get an overview of what to look for. Books on inspecting houses and on old-house construction can give you an idea of how to evaluate houses. Talk to knowledgeable friends or other renovators. Find out if there is a restoration or rehabilitation society in the area. You can also contact building associations or contractors for labor and materials costs as well as local building requirements and procedures.

When you've narrowed your search to specific neighborhoods, ask your city or county planning department about the zoning and building codes for those areas. Zoning ordinances tell you what kind of improvements you are allowed to make and how the buildings in an area can be used. For example, some neighborhoods are zoned only for single-family houses, while in others, duplexes and apartments are allowed.

Understanding the local building code will help you decide on the practicality of rehabbing a particular house. The code describes minimum standards for construction and which materials must be used.

If you're planning to rehab your house a section at a time, find out whether the building code places a limit on how much of the house you can improve before you're required to bring the entire building up to modern standards. Under some codes, the limit is based on a percentage of the replacement cost of the house; under others, on a percentage of the total floor area of the house.

WHAT TO LOOK FOR As you look, consider those characteristics of houses and neighborhoods most important to you, such as distance from your job, location of schools, shopping areas, and transportation. Also note the following:

Age and Size of Homes You may have a choice between older homes with historic value and newer houses, which may need fewer major repairs. Note the sizes of the houses, lots, and yards. Is there room to add on, if needed?

Services and Businesses If the house is in a run-down neighborhood, you might find abandoned businesses, closed schools, etc. How much of an inconvenience would this be to you and your family?

Public Safety Although you can get an idea of what living in a neighborhood might be like by driving through it once or twice, plan to visit any area that you are seriously considering at different times of the day and week. This will give you a more realistic picture of any problems that exist. Ask local businesspeople, law enforcement officials, and, possibly, your prospective neighbors about the crime rate and any other problems.

OTHER RENOVATORS An important consideration in deciding on a neighborhood is whether others have rehabilitated homes in the area. It's not always a good idea to be the first renovator on the block.

While one rehabilitated home can certainly encourage the upgrading of an entire neighborhood, the process can take years or may not happen at all. If you are the first to improve a house and the rest of the neighborhood continues to decay, it will be difficult to recover the cost of rehabbing the property when you want to sell. The presence of other renovators can mean a safer

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investment, since it usually indicates that a neighborhood revitalization effort is already underway.

Meet others who are rehabilitating homes as soon as you can. They can be your best resources for finding a house and helping you get the work done.

A Closer Look

When you know what types of houses you can choose from, it's time to narrow down the possibilities. Think about what's most important to you in terms of a house's size, location, and condition and then arrange to walk through those houses that best meet your requirements.

KEY QUESTIONS As you assess the practicality of each house for rehabbing, consider the following questions:

Can You Afford It? You should have a clear idea of how much you can spend on the project. In addition to the purchase price and the cost of improvements, you should figure in general home ownership expenses (maintenance, utilities, insurance, etc.). If you won't be living in your "new" home while the work is underway, remember that you'll be paying operating costs for two homes.

As a buffer against unexpected expenses, such as work delays or price increases, rehab experts recommend that you add 10% to 25% of the total estimate to your final cost projections. Break down the final figure into monthly payments to decide whether the project is still within your budget. For help in estimating other home ownership expenses, see Report #12 in this series, *Steps to Buying a Home*.

Is Rehabbing Right for You? Along with whether you and your family can afford the project, think carefully about whether you are prepared to handle the personal inconvenience that usually goes along with a construction job. The work probably will be messy and will disrupt your everyday routine. If you'll be working on or supervising the renovation, it will take up most of your free time. Delays in getting materials and other common setbacks can also add to the disorder. Be realistic in deciding if you and your family can handle these pitfalls.

Inspect the House

One way to keep surprises to a minimum is to know the exact condition of the house before you buy it. You can inspect the house yourself (with the seller's permission), and, if you're still interested, verify your findings by hiring a professional housing inspector.

Although you'd probably check out any house thoroughly, a potential rehab property warrants a more detailed examination. Don't take the seller's or broker's word for the house's condition. Although the seller may point out obvious defects, he or she will not be responsible for any problems that turn up after the sale is closed.

Your examination will help you decide if the house is worth the expense of a professional opinion. Your findings may also assist you in negotiating a purchase price with the seller. Be prepared to get a little dirty and take along the following items:

- Pocket knife or ice pick
- Flashlight
- Tape measure
- Magnet
- Carpenter's level
- Marble
- Screwdrivers (assorted sizes)

Also, make a list of the following parts of the house, checking off each one as you evaluate it.

INSIDE Look at the general design and practicality of the floorplan, as well as the overall condition of the walls, floors, and interior structure of the house. Are room sizes acceptable? Are traffic patterns practical? Some older homes may have kitchens and bathrooms that are substandard for today's requirements. Note what it might take to renovate them. You can find out if the house has been remodeled by checking with the building department to see if any building permits were issued. You can also find out if the work was done according to code.

Start at the attic and work your way down. Look for water stains on the undersides of the roof and on the rafters. Also check the beams and rafters for cracks. Find out whether the house is adequately insulated. (If it isn't, make a note to have it done later.)

Check all staircases and floors for stability. If it's safe, jump on the floors and stairs to check for gaps between the boards or excessive vibration, which may indicate structural damage. Use the level or roll a marble to see if the floors are flat. You can also use the level to make sure the staircases and walls are vertical.

Examine the walls and ceilings for water stains, peeling wallpaper, and rotted or loose plaster. These may signal serious leaks. Damaged areas of walls may have to be replaced. Also note whether layers of old wallpaper will require stripping.

Open and close all of the windows to make sure they work properly. If they are jammed, it could mean structural damage or merely that they've been painted shut. Check the frames and floors below the windows for signs of decay or water damage.

Use your flashlight to investigate the fireplace and chimney unit, noting whether the flue is clear and the damper works. Is the unit securely attached to the building? Look for crumbling mortar or cracks, which will have to be repaired. Even though they appear to be in good shape, some fireplaces in older homes may need an overhaul to meet the local safety code requirements.

If you're considering restoring the historical details of the house, note any trim, fixtures, or other items which may be difficult to repair or replace. Many older homes have features that must be custom-made today.

A thorough examination of the basement area and crawl space can reveal a lot about the structural condition of the house. Look for signs of dampness, such as rust or mildew on ground-level wood or equipment. This may indicate regular flooding. Examine the beams, posts, and joists. They should be free of sagging and cracks. Use your knife to probe the wood sill at the top of the foundation for rot or decay, usually caused by moisture or insects.

If the mechanical systems of the house are working, find out their condition. Turn on the heater and locate each duct to see if all parts of the house are adequately heated. Use your magnet to determine what kind of plumbing exists. The magnet will cling to iron pipes, but not to copper, lead, or brass. Old or rusted iron piping may have to be replaced.

Turn on several faucets (hot and cold) and flush a toilet to make sure the water pressure doesn't decrease sharply. Find out if the water heater works, what kind of condition it's in, and whether it has the capacity to meet your needs.

Although you'll probably need professional help for a thorough check of the house's electrical system, you can look at a few things yourself. Find out how much power is going into the house by asking the seller or looking for the information on the master switch and fuse box. If you can't find the information, ask the utility company.

Electrical systems of houses built before 1950 frequently need expansion or replacement to meet modern needs. In California, the average household needs 150 amps.

Locate all of the lighting fixtures and electrical outlets in each room; make sure there are enough and that they are conveniently located. Check the exposed wiring for cracking or fraying.

OUTSIDE Any serious problem in the foundation of the house can indicate structural damage that would be very expensive to repair. Pull back any weeds or shrubbery to get a clear view and work your way around the entire foundation, looking for cracks, uneven settling, or any damage that may cause water seepage. Check brick or stone foundations and chimneys for crumbling mortar and cracks.

Use your knife to probe the wood sill on the foundation and wooden porches for damage from moisture and insects. Tunnels from the ground to the wood or piles of coarse sawdust along the foundation are probably signs of carpenter ants or termites. Probe any suspicious areas with a knife. Because insect damage is often hard to detect, you should call in a professional termite inspector, if you're seriously interested in the house.

Observe the general condition of the exterior walls, siding, shingles, etc. Excessive peeling or blistering paint indicates serious water problems. Use the level to make sure walls and frames are square.

If it is possible—and safe—go out onto the roof to look for holes and cracked or missing shingles or tiles. Check the roof's waterproofing and drainage system. Find out whether water drains well off the property. Note the general condition of the rain gutters and downspouts. Do the downspouts carry water away from the foundation?

Don't walk away from the house without double-checking your list to see that all your questions have been answered. Be sure to note any further research you must do such as contacting the utility company for the amount of power and the building department for code violations.

A PROFESSIONAL OPINION A professional inspection report will include a description of the house's problems with cost estimates for some repairs. Fees range from $50 to $200, depending on the condition of the house and the amount of detail in the report.

The inspection can be done by a housing inspector, contractor, architect, or engineer who is knowledgeable about code requirements and the structure and mechanical systems of a house. You may be able to find an inspector through other rehabbers or a local rehab organization. Or, try looking in the telephone directory's Yellow Pages under "Building Inspection Services."

Although housing inspectors are not required by law to have licenses, you may want to hire one who has been certified by the California Board of Registered Construction Inspectors. You can contact the board's Sacramento office at (916) 323-2556 to find out if a particular inspector is certified. If an architect, contractor, or some other professional is doing the job, check with their local associations (such as the American Institute of Architects) or the Contractors' State License Board (listed in the telephone directory under "California, State of") to verify that they are licensed.

You might also ask any prospective inspectors for copies of some recent reports and names of former customers so that you can check the quality of their work.

Make sure the inspector knows what you intend to do with the house—whether you want to restore it to its original condition or plan to knock out walls and make other alterations. He or she usually can tell you what's worth saving and what should be replaced. You may want to accompany the inspector to find out more about the house.

Many inspectors use a standard form for rating each aspect of the house. They may also prepare a more detailed report that gives suggestions on what should be done to meet minimum code requirements and head off any major problems. This report also may include estimates that you can use as a starting point to figure your basic renovation costs.

Finding the Money

When you've settled on a house, it's time to look for the money to pay for the purchase and rehabilitation. Before you start investigating financing options, you'll need to prepare information on the project and on your personal financial situation.

THE PROJECT PLAN When you visit a lender, you'll need a detailed outline of the work to be done and cost estimates. Though the information required by different lenders varies, here are the basic points you should include:

- The county assessor's legal description of the property, listing the address, lot and tract number, and parcel number.
- The house's age, dimensions of the house and lot, and number of rooms.
- Exact drawings and specifications of planned improvements, with all costs broken down.
- The names and license numbers of contractors who gave you estimates. (You can get estimates without signing contracts.)
- Copies of any agreements you've made with the seller.

You may also want to show a prospective lender evidence of other community revitalization efforts (flyers, newsletters, etc.), any proof of the house's historical or architectural significance, and the prices of other homes recently sold in the area.

This information will not only help the lender evaluate your loan request, but will show that you've done your homework and considered all aspects of the project.

The lender will also ask for a personal financial statement, detailing your income and expenses. For help in preparing your statement, see Report #5 in this series, *How to Prepare a Personal Financial Statement.*

ARRANGING FINANCING Depending on the location of the house you want to buy and the amount of renovation needed, you may be able to choose from several different methods of financing. Institutional lenders (such as banks, savings and loans, and credit unions) offer conventional and, perhaps, some government-insured loans for buying a house and making improvements. You may also qualify for a local, state, or federal government loan offered through local government agencies and institutional lenders. Usually, your property must be located in a designated rehab area.

Ask other renovators and the local planning or housing department whether any special rehab programs are available. Also contact several lenders to find out what types of loans they offer. If you are lucky enough to have several options, you'll want to find a loan that pays for as much of the project as possible, at the lowest cost to you. Compare lenders' loan policies and terms, including interest rates, down payment requirements, loan fees, and repayment periods.

You should also check on any additional eligibility requirements for government rehabilitation loan programs. For example, you might have to meet certain income standards to qualify.

Following are some types of loans that may be offered and some basic points for comparison.

CONVENTIONAL LOANS Most institutional lenders offer conventional loans—those with no government backing—for purchasing homes. Since various types of home loans are currently available in California, you should ask several lenders which ones they offer. For information on the different home loans and how they work, see Report #12 in this series, *Steps to Buying a Home.*

Most conventional home loans are for the *purchase-money* only; you'll probably have to finance the rehabilitation through another source, such as a government program.

GOVERNMENT LOAN PROGRAMS Federal, state, and local governments may offer one or more types of loans for buying and rehabilitating homes.

FHA and VA You may be qualified for a home loan insured by the Federal Housing Administration (FHA) or guaranteed by the Veteran's Administration (VA). Both types of loans are available through approved institutional lenders as well as through special rehab programs. The interest rate and down payment requirements for FHA and VA loans are typically lower than for most conventional loans.

In addition to insuring purchase-money loans, the FHA, under its Title I program, also insures home improvement loans. The FHA determines what types of improvements you must make and sets interest rates, repayment periods, and maximum loan amounts. Your lender may also set other restrictions within the FHA guidelines.

HUD Local government agencies and some institutional lenders offer low-interest rehabilitation loans funded by Community Development Block Grants (CDBG) from the U.S. Department of Housing and Urban Development (HUD). To qualify, you must live in a designated CDBG area and meet local and federal eligibility requirements. CDBG loans are usually limited to individuals with low or moderate incomes.

Neighborhood Housing Services (NHS) NHS programs offer home improvement loans and advice on locating a house and doing the work. NHS is a cooperative effort of federal and local government, local lenders, and private citizens, which encourages revitalization of specific

Historic Preservation

If your house has an important history or is an example of a classic architectural style, you may qualify for a grant or an exemption on your federal income tax that will cover part of your renovation expenses. You will have to research and document the house's background according to state and federal guidelines. Also, your exterior improvements will be limited to restoration of the original design.

If you think your house may qualify, find out the guidelines and get started on the research before you make your improvement plans. Otherwise, you might change or demolish something important to the architecture or history of the house.

If the seller cannot tell you about the house's past, you may be able to piece together its history from records at city hall, your local library, newspaper, historical society, and information from the neighbors. Try to find out when the house was built, who the past owners have been, and what the house looked like originally. You may be able to get copies of the original construction plans from the building department or the county recorder's office.

If there are other renovators in the neighborhood, consider starting a restoration society to share resources and promote the historical or architectural value of the neighborhood. Grants and tax breaks are available for areas designated as historic places by the state or federal government.

For more information on how to qualify for one of these programs, contact the California State Historic Preservation Officer at (916) 445-8006 or the Western Regional Office of the National Trust for Historic Preservation at (415) 453-0325.

communities. You can find out whether there is an NHS program in your area by looking in the telephone directory under "Neighborhood Housing Services."

Urban Homesteading If you live in one of the few areas involved in HUD's Urban Homesteading program, you may be able to buy a house for as little as $1. Foreclosed and abandoned houses acquired by HUD are transferred to local government agencies which then sell them to the public at token prices. Usually, you are given 18 months to make specific repairs before you receive full title to the property. You must also agree to live in the house for at least three years.

For More Information For information on CDBG, NHS, Urban Homesteading, and other housing finance programs, contact your local housing agency or call the nearest HUD office, listed in the telephone book under "United States Government."

Farmers Home Administration If the house is located in a rural area, you may qualify for a low interest loan for the purchase and/or renovation. For more information on the program in California, contact the Farmers Home Administration, 459 Cleveland Street, Woodland, CA 95695.

State-Sponsored Loans Qualified low- and middle-income people may apply at certain lenders for purchase-money and rehabilitation loans available through the California Housing Finance Agency. Generally, the house must be located in a state-designated revitalization area. Interest rates are typically 2% below conventional loan rates. Down payment requirements may also be lower.

For more information, contact the Los Angeles, Sacramento, or San Francisco office of the California Housing Finance Agency (listed in the telephone directory under "California, State of"). Or you can call your municipal department of housing and community development.

Hiring Professionals

You may be thinking about saving money by serving as your own contractor. While being the "owner-builder" can certainly cut costs, you should carefully consider whether you have the skills, knowledge, and time that a major rehabilitation project demands. If you overestimate your ability or underestimate the complexity of the project, any resulting mistakes or complications could cost you more money than you'd have paid a professional. Also, most lenders require proof that you are qualified to handle the project before they will approve your loan.

If you decide to do your own contracting, you'll be responsible for obtaining insurance, building permits, zoning variances, bonds, and any other documents required by law. You'll hire the subcontractors, purchase materials, and supervise the work.

Generally, the more extensive the job, the more professional help you'll need. If your plans include moving walls or making major design changes, it's a good idea to consult an architect. If the project requires the services of more than one type of subcontractor, you may want to hire a general contractor.

Careful selection in hiring either an architect or contractor may help ensure that the project will run as smoothly as possible. These professionals are familiar with local code requirements. They can obtain the building permits and other documents you need and make sure the job meets local standards.

LOOK FOR SPECIALISTS Because general remodeling professionals may not have the special skills required to renovate an older home, it's best to hire those who have done rehab work before. For example, an architect who specializes in renovation would be familiar with the interior and exterior design characteristics, as well as older mechanical systems. Contractors who specialize in renovation will know of suppliers of custom materials and craftspeople who are skilled in restoring the historical features of older houses.

Other renovators are an excellent source for finding qualified workers. They're usually happy to refer you to reliable people and steer you away from those who have done poor work in the past. You can also find architects and contractors through such traditional sources as the telephone directory's Yellow Pages and local chapters of professional organizations (listed in the Yellow Pages under "Associations").

Carefully check the qualifications of anyone you plan to hire. Get at least three different estimates on the cost of the job and investigate the experience of those who submit bids.

THE CONTRACT All agreements you make with a contractor or architect should be in writing. The contract should be clearly worded and explain exactly each party's responsibilities. Make sure you understand your obligations before you sign.

Under California law, contracts of $500 or more must contain:

- The name, address, and license number of the contractor.
- The name and registration number of any salesperson who solicited or negotiated the contract.
- The approximate dates when the work will begin and be substantially complete.
- A description of the work to be done and the materials to be used.
- The total job price with a schedule of payments and the amount of each payment.

Your property will probably serve as security for the loan and other contractual obligations. This means that the lender, contractor, and subcontractors may have the right to make a claim against the property should these obligations not be met. For more information on hiring a contractor, contracts, and ways to protect yourself from unfair claims, see Report #11 in this series, *Planning Home Improvements*. You may also want to get *Blueprint for Building Quality*, available from your local office of the Contractor's State License Board.

Information in this report is current at the time of printing, March 1981, but is subject to change.

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AD-278 (3/81)